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NOTES ON MUNICIPAL GOVERNMENT

Municipal Accounting

IN

Boston and Louisville

BOSTON, MASS.

BY HARVEY S. CHASE, Public Accountant and Auditor

The system of accounting in Boston is based upon cash receipts and cash payments, and the auditor's report deals only with the actual cash received and with the actual disbursements during the period.

The general system of accounting is based upon annual appropriations made by the city council as early in the fiscal year as practicable, which cover expenditures until the end of that fiscal year. During the period from the beginning of a new fiscal year until the appropriation bill is passed by the city council, the heads of departments are authorized by ordinance to make expenditures not to exceed a pro rata of each prior appropriation. This pro rating covers of course only the appropriations for ordinary expenditures (running expenses) of the year. The appropriation bill or budget is made up in the city auditor's office from estimates submitted by the various departments, and after consideration and amendments by the mayor, is presented to the city council for action. The city council, consisting of two bodies, passes upon the items of the bill and makes the final appropriations which thereupon become available to cover the expenditures of the year. To provide money in the treasury during the time preceding the collection of taxes of the year, the city treasurer is empowered to borrow an amount not exceeding a sum designated by the city council, and these borrowings are repaid from the proceeds of taxes collected during the year in which they are issued. Expenditures for new construction and other "capital" purposes of the city are provided for by appropriations from loans authorized by the city council in special appropriation bills. These loans are represented by bonds issued by the city running for various terms of years, each loan having a specific sinking fund into which moneys are annually appropriated by the city council in amounts sufficient to provide for the whole amount of the loan at maturity. These sinking funds in Boston have been admirably handled, although the fact that each loan has its separate sinking fund requires a very considerable amount of detailed bookkeeping in the sinking fund department.

The whole matter is complicated by the fact that portions of the city debt have been issued under the general law which permits indebtedness not to exceed $2\frac{1}{2}$ per cent of the average property values of three prior years, while in addition to the limitation of debt thus set up by statute there have been debts authorized by the legislature very considerably in excess of this limitation. In fact the debt "outside the limit" in Boston added to the debt "inside the limit" gives a total debt of about twice the so-called limitation. This condition somewhat complicates the sinking fund bookkeeping and requires also very careful attention by the auditing and treasury departments to see that the expenditures from loan appropriations conform to the requirements of statute law.

It is evident that a careful distinction is made between receipts from capital, such as flotation of loans, and receipts from current sources, such as taxes, etc.

Returning now to the budget and appropriations, it may be stated that when an appropriation is nearing exhaustion, a transfer or transfers may be made from the "reserve fund," for which a specific appropriation has been made in the original appropriation bill, or from some other appropriation which is in excess of the expenditures required thereunder. These transfers in 1905 amounted to \$411,000.

The appropriations for 1906 in Boston for general city requirements, "current expenses," amounted to \$11,946,889; the requirements for sinking funds were \$1,448,374; requirements for interest were \$2,560,854. The County of Suffolk is practically coterminous with the city of Boston. Its expenses and debt requirements are provided for by appropriations of the city council, and required \$1,314,530 in addition. The total of these appropriations for current expenses of the city and county amounted to \$17,270,647. In addition the water department appropriations for current expenses and "extension of mains" were \$545,000, and the water debt requirements (interest) \$359,309.

In Boston the final auditing of a claim or pay roll is practically equivalent to its payment, and it is the custom at the end of each fiscal period to include in the reports of the year all payments made, on account of that year, during some days or weeks after the nominal date of closing the books. In this way the system approximates to a revenue and expense basis, although it is not, technically speaking, upon such a basis.

The assets and liabilities of the city are properly kept in the books, but are not drawn up by the city auditor in balance-sheet form. The values of city property are set up in various excellent tables in the city auditor's report, and the liabilities are likewise set forth in detail and various schedules are given which supply the information in detail, and might be better given in summary form upon a "balance sheet," if such were published.

The auditor's report as a whole is an admirable presentation of the details of the city's financial affairs, although it is not arranged upon the standard lines originally devised by the National Municipal League's Committee upon uniform municipal accounts and statistics. The form of the auditor's report has remained unchanged for many years. Emphasis has

not been laid upon a change of form to the uniform distribution of accounts as now provided by the reports of the United States Census Bureau for all cities in the country, for the reason that the statistics department of the city of Boston, under the able administration of Dr. Edward M. Hartwell, who is a member of the National Municipal League's Committee, has arranged the reports relating to the receipts and payments of the city of Boston for each fiscal year, on tables in exact accord with the schedules endorsed by the league. Appendix B of "Special Publications Bulletin No. 12" of the Statistics Department gives upon these uniform schedules statements of the receipts and payments for each of the fiscal years 1900, 1901, 1902, 1903 and 1904; 1905 having been added in a later publication.

Comparisons of the figures of the current year with the figures for other years are provided in tables in the city auditor's report and appear in particularly good form in the special reports of the Statistics Department.

It would appear that suggestions for improvement in the city auditor's report would lie along the lines of arranging that report to follow as closely as practicable the arrangement of titles and accounts in the bulletin of the Census Bureau, specific reference being intended to Bulletin 50 of the current year 1906. It would also be of material advantage to have a statement of the properties and assets together with the debts and other liabilities set up in the form of a balance sheet, or trial balance statement, as a summary, with detailed schedules of each of these items set forth on subsidiary tables. Illustrations of what is here referred to are well given in the city auditor's report of Pawtucket, R. I., in the city comptroller's report of Minneapolis, Minn., and in the city comptroller's report of Rochester, N. Y.

The city auditor of Boston is in no sense a comptroller. The charter of the city makes the office an appointive one, and the city auditor is subordinate to the mayor, and can act independently in but few particulars. The duties of the city auditor's office are mainly clerical and statistical, as the charter gives no power to the auditor to throw out or hold up items which have been passed by other officials in accordance with the statutes and ordinances.

The actual work of verifying the mathematical exactness of the items audited and of keeping the books has been most excellently carried on by the city auditors of Boston for many years past. Political influence has played no part in the appointments in this department and the clerical force is efficient and intelligent.

Audits by outside professional accountants are made from time to time under instructions from the mayor, but no regularity in these audits is observed except in the treasury and sinking funds departments and in the city collector's department. These three departments have been annually audited by professional accountants for many years, under requirement of ordinance.

The movement toward uniform municipal reports and accounts has been gathering headway during the past ten years and, in its present phase, has

culminated in the work of the United States Census Office now going on at Washington.

The necessity for some measure of uniformity in municipal and other public reports has been understood and urged for many years by economists and students of public affairs who found themselves seriously handicapped whenever they attempted to draw up comparative statistical tables of municipal finance. Up to a few years ago there was no uniformity in methods for municipal reports, neither in nomenclature nor in forms for statistical exhibits. At that time the situation, so far as uniformity is concerned, appeared to be hopeless for the reason that municipalities are outside the domain of national legislation, while the laws pertaining to city affairs are not alike in any two of our forty-five states, even in primary and essential matters. Worse than this, the statutes regulating municipalities in many single states are found to vary very greatly, each city's charter being different from the charters of all other cities.

When the subject of uniform municipal accounting was first broached to city controllers and city auditors not many years ago, it was disconcerted by them. They considered that its realization in practice would be impossible, owing to the marked differences in the laws of the various states, already referred to above.

The prospect for uniform municipal accounting was therefore sufficiently discouraging to its adherents, and it was only by leaving uniformity of *accounting* severely alone for the time being, and devoting all available energies to the simpler side of the question, namely, *uniform municipal* reports based upon a redistribution of the city treasurer's accounts at the end of the year—this redistribution being made upon uniform and comparative schedules—that any progress could be achieved. I say treasurer's accounts, meaning thereby cash receipts and disbursements rather than true "revenue and expense" accounts (income and expenditure), because the only ideal in the minds of the great majority of financial officers in our small and medium-sized cities has been to finance each municipality upon a strictly "cash" basis, that is to say, to actually collect in cash all of the revenues of the municipal year during that same year and to actually pay out in cash all of the expenses which were incurred during the same period.

It appeared, therefore, simpler to get the idea of uniformity in methods definitely into the city officials' heads and to instill there a belief in the practicability of comparative municipal reports by taking the means at hand, viz.: treasury (cash) statements and transforming them annually upon uniform lines. This is the work to which the National Municipal League first addressed itself.

In regard to the necessity for uniform municipal reports and accounts it may well be asked: What has uniform and comparative accounting done in the business world? Where would our great railway systems, our large manufacturing enterprises, our ramifying electric railway companies, our great steamship corporations, or any of a thousand and one of our business combinations be without comparative accounting systems?

Uniform accounting plays much the same part in all business combinations that the high speed elevator plays in our twenty-story buildings; without it the whole structure would be useless and impossible. How is it with cities, with towns and other municipal divisions? Have they uniform and comparative accounting to-day? Most assuredly not. Have their methods of accounts and reports kept pace with the great development in these directions in the commercial world in the recent past? Again, most assuredly not. Have, indeed, our municipalities as a whole anything in the nature of a scientific, comprehensive and yet concise and simple system for keeping their accounts and making their reports? My experience proves to me that as a whole they most certainly have not, and that on the contrary the accounting and reporting of the great majority of the municipalities throughout this country is crude, unsystematic, inaccurate and away behind the times. Could any of our great businesses be carried on to-day if their accounting was the same or no better than that of our cities and towns? The answer is self-evident; not one of them could live a year under such conditions.

On what do the managers of great commercial enterprises base their actions? To what do they turn for daily and hourly information of the condition of their affairs? They turn to condensed, accurate and promptly-made reports, and there is nothing dubious about such reports; they are absolutely accurate, being taken from a scientifically devised system of accounts, and they are prompt to the minute, being made by thoroughly trained men, experts in their particular business and experienced by long years of adaptation therein.

How does the condition in our cities compare with this? Not in one city in a hundred in this country are there these accurate and prompt reports for the proper guidance of the managing officials; not in any of them are there, throughout the departments, the same grades of efficient men experienced by years of adaptation and experts in their particular businesses.

"Ah, there," says the critic of uniform accounting, "now you hit the real point—*the men*. You must have the men. Get the men and the system will take care of itself." Very true, as to the first point, but how shall we get the men? Have not cities been trying throughout the whole of municipal development in this country to get the men and, when they get an efficient one, to keep him, and have they not found themselves unable to do so? They tell us that in the good old times of small municipalities we did get the men and did get efficient and economical government without scientific systems of book-keeping. This is very likely true, but so also we did business in those times in single entry ledgers and often with the whole bookkeeping of a considerable establishment carried by the manager "under his hat." Would such methods do for commercial enterprises in the year of grace 1903? They certainly would not, and no more can the old methods in cities and towns provide for the present with its immense development of municipal functions. What did cities do in the recent past and what do they do for their citizens to-day? Compare Boston fifty years ago with Boston to-day. Look at the increase of city departments, the enormous development of civic functions,

and remember that the amount now spent annually upon our streets alone would have been sufficient to cover the whole cost of the municipal government not many decades ago.

"Get the men!" Yes, that is what we desire to do, and that is what uniform and comparative accounting and reporting is going to do for us if we give it the opportunity, I most firmly believe.

"Get the men!" Yes, but how do we get the men in business enterprises? Every manager of a great enterprise will tell you that the most serious difficulty is to get the right men. He will not, however, tell you, as every praiseworthy city official will, that there is an equal difficulty in keeping the man after he has been found. Why is there this difference in the ability to hold the capable men? Is this fundamental? Can anything be done to remedy it? In commercial lines the able man who has proved his capability is sure of his position so long as he continues efficient and honest. He has compensation in money and in honor among his peers. The results of his work are known to his superiors and to his rivals, and he has every inducement to struggle and strain to maintain his position and to improve it.

Has the capable city official to-day any correspondingly strong inducement to do his best, and to do it promptly? Has he credit and honor in the community? Has he even money compensation equivalent to that of private positions? My experience teaches me that the answers to these questions are negative and that the public official does not receive the credit and honor due him. That, on the contrary, whatever support and satisfaction is found by able men in public office come only through their own knowledge that they have done their best, or, to put it perhaps more truly, that they have done better than those about them.

Suppose the stimulation of competition for credit and honor from the community be added to the present inducements for capable public officials. Suppose by promptly issued comparative reports it should become evident to all that the head of one department has done better than others in his own city or better than those in similar departments in other cities, and suppose that thereby this official's hold upon his office and his hope of future promotion become strong, how will all this help in the Augean task of raising the level of capacity and efficiency in our public service?

To be commended for good work by their fellow citizens is almost unknown to public officials in these days. We are too apt to condemn all public servants together, the good and the bad alike, whenever some unsavory story of municipal politics appears. This injustice should be stopped. There should be discrimination, the capable must be distinguished from the incapable, the prudent from the extravagant, and the incorruptible public servant from the corrupt one.

How can this be done except by uniform and comparative public accounting and reporting? How else can these distinctions be made, how otherwise can the capable man be rewarded and the incapable one dismissed? Let the official who does well be shown forth in the results of the administration of his trust; let him receive the honor and the security of office which are due

him and we will never lack for public servants to play the same important parts that honorable and successful men play in private affairs.

LOUISVILLE, KY.

By J. W. BAIRD, Accountant.

The system of municipal accounting in use at Louisville, Ky., is usually termed the "voucher system." The city's receipts are from taxes, licenses or privileges, interest on deposits, sale of franchises, dividends on gas stock, proceeds of sales of broken stone from the workhouse, sales of clinical tickets and pay patients at the hospital, and obsolete and condemned property and material.

Except the taxes and licenses, the proceeds from these sources are usually credited to a general fund, or to the account producing them. The city revenue proper being taxes and licenses, is distributed to the following boards, who elect their own officers, keep their own accounts and publish their own reports, viz.: Louisville school board, commissioners of the sinking fund, board of park commissioners, and board of managers of the house of refuge.

Licenses are collected by the commissioners of the sinking fund. This commission is charged with the payment of the interest and principal of the bonded debt. In addition to licenses, the board receives a moiety of the taxes for this purpose.

The assessment is made annually. Upon its completion the board of equalization meets for fifteen days to hear complaints from parties assessed. Upon the close of the assessor's books the general council fixes the tax rate, and ascertaining the amount to be realized, the general council makes one or more appropriation ordinances, the first one usually being only temporary, the last one after the wants of the city are more accurately determined; but in no case must the gross amount appropriated exceed 95 per cent of the levy, unless more than that shall be actually collected. All taxes are levied by ordinance, and the purpose for which they are levied must be specified in the ordinance. The revenue is expended for those purposes only for which it was collected. The assessor makes the tax bills. These bills are printed with a stub, machine-numbered, bill and stub alike, commencing with number one, and proceeding indefinitely to as many as there are lots of land and lots of personality assessed, that is to say, one bill for each lot of land and the improvements thereon, and one bill for the personality assessed against any one person. The bills are bound 200 in a book. Upon the completion of the bills the assessor delivers them to the tax receiver, taking his receipt therefor, and reporting the details of the assessment to the comptroller and the general council. Upon the delivery to the tax receiver, the comptroller charges the receiver with the gross amount of the assessment, crediting the assessment for that year. The tax receiver each month is charged with any additional bills, covering omitted bills and interest and penalties for delin-

quencies which may accrue, and in like manner he is credited with any errors or abatements found during the month, all of which are duly certified to the comptroller by the assessor.

Upon receiving the bills, the taxpayer is notified by postal and advertisement that they are ready for payment. The tax receiver makes daily reports of his collections, stating in detail the name of the taxpayer, the number of the tax bill, the kind of tax and the amount paid; at the close of business he sends these statements with the money to the treasurer, who credits him with "cash." The report goes to the comptroller, who charges the assessment account and credits the various funds (tax accounts) with their proportion. An impression or carbon copy of these daily reports goes to the assessor, who is required to note upon the assessment rolls or journals the payment of the tax upon each specific piece of property by the number of the bill and the date and number of report. These reports are numbered serially, and each year bound for reference. Settlements are made with the tax receiver by the mayor, comptroller, auditor and treasurer, and must be made on or before the last day of October each year. (This is the weak spot in the system, as to relist the uncollected bills alone is an onerous job and necessarily slow, with great liability to error, besides taking the entire time of four of the principal officers of the city for several days.)

The system of expenditures is that all claims against the city, except those payable by the sinking fund commissioners, must be made out upon blank forms in duplicate, certified by the heads of the departments and registered by the comptroller, charged to the proper account when registered and forwarded to the general council for allowance. The pay rolls, which include all of the expenses of the departments or institutions, are treated as vouchers made in duplicate. When they reach the council they are referred to the committee of the council, who do the auditing that is done, or rather pass the vouchers upon faith of the certifying officers, they go to the board of aldermen and receive like treatment, then to the mayor for his approval. After the approval of the mayor, they are delivered to the comptroller, who separates the original from the duplicate, delivers the duplicate to the owner and files the original in his office. When this is done the owner takes the duplicate to the auditor, who issues a warrant for the amount, taking his receipt on the back of the voucher.

All money belonging to the city derived from any source whatever must be deposited in the treasury regularly once each day, and is paid out only upon warrants drawn by the auditor and countersigned by the comptroller, except as otherwise specially provided. Prior to the close of 1873, the custom of the general council's auditing bills against the city and directing their payment by the auditor by a mandatory resolution, had prevailed from the time "that the memory of man runneth not to the contrary," but at this time had produced such confusion as to demand a change in the system. Then was inaugurated the present system of requiring all bills against the city and all pay-rolls to be made in duplicate on blank forms furnished by the city, certified by the officer or head of the department creating the

bill and sent to the city bookkeeper for registration, who would charge them against the appropriation before they were allowed. The auditor elected in 1870 under the new charter was incapable of keeping the city's general books or formulating any scheme for an improved accounting system. The mayor and general council to remedy this state of affairs employed an accountant, styling him "city bookkeeper." Under the present charter this officer has been called the comptroller, and continues practically the methods of business heretofore described. Unfortunately, however, this is not in accordance with the present charter. The charter makes the auditor the general accountant and the principal disbursing officer of the city, and takes away from the general council the allowance of claims, and makes the comptroller the mayor's fiscal adviser and the supervisor of the fiscal affairs of the city. In this particular the charter is completely ignored.

There is no distinction made between the receipts from capital, such as flotation of loans, and receipts from current sources, such as taxes, and there should not be, for the reason that the only loans floated are temporary, three or four months' loans, pending the assessment and collection of taxes.

The general books should be so kept as to show the city's expectations from all sources, as well as the liabilities of every character, actual or otherwise.

A statement of assets and liabilities is made and published each year. It includes all items of assets and liabilities. More assets are shown by the report of the experts in the comptroller's office than should be by nearly \$10,000,000. The liabilities are about right. My opinion is that a municipal corporation has no assets, except the taxing power. Utilities provided for public use or convenience paid for out of the taxes are extended and enlarged out of the profits on their products, like water and gas; right of way for streets and alleys purchased, pumps, wells, cisterns and fire plugs paid for by the property are not assets. The city can neither sell nor pledge them. School houses are a part of the educational system of the state. The title is in the Louisville school board, who derive their revenue from the city and state, the levy for their benefit being compulsory on the council. The city can exercise no control whatever over this property.

The comptroller's annual report should be merely a resumé of the fiscal division of the various bureaus or departments, each report showing receipts and disbursements, detailed in such form as the comptroller shall require and certified by the chief officer of the bureau or department, marshalled by the comptroller and included in his report as an integral part thereof, to accompany his message to the mayor or council, analyzing and criticising the results of the year's operation.

The auditing of municipal accounts should be made by a commission, composed of an accountant, an engineer and a lawyer. (It is of no consequence to know that every cent received was paid out and a voucher shown for it, if it is not known that all was received that should have been, and paid according to law.) Such an audit would do much to prevent defalca-

tion. As ordinarily conducted, the audit of municipal accounts is not conducive of improvement.

A better system of municipal accounts would require the treasurer to keep no books except the cash book. He should receive money only upon an order from the comptroller or auditor, as the case may be, and disburse the same only upon a warrant from the auditor or comptroller. Collecting officers should not be charged with assessments or bills for collection. An officer, such for instance as a "custodian," should be charged with them, who should report daily to the comptroller or auditor the bills delivered to the collecting officer and collected by him that day.

A uniform system of accounting for all municipalities is not possible. I believe that uniformity would be impossible, unless state legislatures could be induced to fix, under heavy penalties for violation, a schedule of accounts to be kept, and the form of report to be made to some central authority for audit.